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COUNTING ALL THE JOBLESS: PROBLEMS WITH THE OFFICIAL UNEMPLOYMENT RATE

THIRTY-SEVENTH REPORT

BY THE

COMMITTEE ON GOVERNMENT OPERATIONS

JUNE 26, 1986.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, DC, June 26, 1986.

Hon. THOMAS P. O'NEILL, Jr.,
Speaker of the House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's thirty-seventh report to the 99th Congress. The committee's report is based on a study made by its Employment and Housing Subcommittee.

JACK BROOKS, *Chairman.*

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CONTENTS

	Page
I. Introduction	1
II. Background	2
III. Findings and conclusions	2
IV. Recommendations	3
V. Discussion	4
Defining and measuring unemployment	4
VI. Discouraged workers	5
Trends among discouraged workers	5
VII. Part-time workers for economic reasons	6
Trends among part-time workers	7
VIII. The U–7 unemployment rate	7
IX. Problems measuring unemployment in urban areas	8
X. Problems measuring unemployment in rural areas	8
XI. Ramifications of undercounting the unemployed	9
XII. Summary	10

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COUNTING ALL THE JOBLESS: PROBLEMS WITH THE OFFICIAL UNEMPLOYMENT RATE

JUNE 26, 1986.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. BROOKS, from the Committee on Government Operations, submitted the following

THIRTY-SEVENTH REPORT

BASED ON A STUDY BY THE EMPLOYMENT AND HOUSING SUBCOMMITTEE

On June 24, 1986, the Committee on Government Operations approved and adopted a report entitled "Counting All the Jobless: Problems With the Official Unemployment Rate." The chairman was directed to transmit a copy to the Speaker of the House.

I. INTRODUCTION

In response to concerns raised at the subcommittee's November 15, 1985, hearing on the Job Training Partnership Act and Farmers; namely, that the spouses of farmers not previously in the labor force who are seeking jobs are not counted in the official unemployment rate, the Employment and Housing Subcommittee held a hearing on March 20, 1986, to examine problems with the official unemployment rate. At this hearing the subcommittee explored the methods used by the Department of Labor's Bureau of Labor Statistics (BLS) in measuring the official unemployment rate. The hearing focused on the special problems of counting the jobless in both urban and rural areas of the Nation, with special attention to the use of local area employment data. The subcommittee considered problems with the statistics themselves in undercounting the level of unemployment in some areas, as well as problems relating to the use of unemployment data by the Congress in making policy decisions. Congress uses unemployment data to allocate funding for many Federal programs, particularly in the area of employment and training.

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II. Background

The Bureau of Labor Statistics publishes the official unemployment rate on the first Friday of each month based on a sample survey of 59,500 households called the Current Population Survey (CPS). The household survey is the basis of information on the labor force, total employment, and unemployment data found in BLS's monthly report. The Nation's system of labor force statistics is most effective in the production of national data and is weakest with respect to State and local data. The CPS sample of households is designed to be representative of major regions and the Nation as a whole. The CPS sample is adjusted every 10 years to reflect the population shifts contained in the Decennial Census. The national sample of geographic areas is termed primary sampling units (PSU's). The largest standard metropolitan statistical areas (SMSA's) and special non-SMSA areas with large populations are automatically included in the sample as PSU's.

Unemployment data for States and local areas are published monthly by BLS in cooperation with the State employment security agencies. The data produced in this joint effort covers all States and approximately 4,600 sub-State areas. These areas include all metropolitan areas, counties, and those cities which have populations of 50,000 or more. The primary basis for calculating local area unemployment statistics is the count of residents claiming unemployment insurance benefits under State law. State employment agencies use a formula methodology to measure the labor force because not all workers are covered by unemployment insurance. Local area unemployment data are often produced for small areas which BLS concedes are subject to large relative error.

III. Findings and Conclusions

A. There is a growing national problem with discouraged workers and part-time workers for economic reasons. The BLS actually calculates seven rates of unemployment. Unfortunately, the one most often used us U–5, known as the "official unemployment rate," which excludes these groups, not the U–7 rate, which includes them. Failure to include data on these groups in the official unemployment rate seriously understates the true level of unemployment in both urban and rural areas of the Nation.

1. Since 1983, after 2 years of economic growth in the Nation, the number of discouraged workers remains high at 1.2 million people in 1985 compared to 771,000 discouraged workers in 1979, the previous nonrecession year. These workers are not included in the official unemployment rate.

2. The problem of underemployment in the Nation is growing. The percentage of involuntary part-time workers has increased from 3.6 percent of the labor force in 1979 to 5.2 percent of the labor force in 1985. This represents an increase of over 2 million underemployed or part-time workers for economic reasons. There is still a rise and fall in these groups depending on economic conditions, but there is an unfortuna'e secular rate of increase. These workers are not included in the official unemployment rate.

B. The Current Population Survey (CPS) conducted by the Bureau of Labor Statistics (BLS) is most reliable in the production

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of national unemployment data and is statistically unreliable with respect to smaller States and local area data. Small statistical samples are subject to large relative errors.

C. Measuring the true extent of unemployment in urban and rural areas presents specialized problems with groups in these labor markets.

1. Measuring the true extent of unemployment in urban areas is difficult because of several groups who present outreach problems in determining the urban labor market. These groups include the homeless, high school dropouts, and minority youth which are all factors contributing to the inaccuracy of the official unemployment rate in urban areas. The extent to which the Decennial Census undercounts ethnic and racial minorities impacts negatively on the construction of the CPS sample for urban areas.

2. Measuring the true extent of unemployment in rural areas is difficult because of the composition of the rural labor force. The rural labor market has a higher number of self-employed people who do not receive unemployment insurance benefits and has many part-time workers on family farms who are considered employed despite their lack of earnings. The farm spouse who works on the family farm, who would like outside, full-time compensated employment is representative of the rural unemployment undercount problem.

D. Business needed for economic development in depressed areas looks to the potential labor pool available for employment as a factor in relocation. Underestimating unemployment in local areas underestimates the potential labor pool available for employment and discourages business from relocation.

IV. Recommendations

Commissoner Janet Norwood of BLS in testimony before the subcommittee agreed that she thought Congress should reexamine its policy of allocating Federal funds for programs based upon local area CPS data. She expressed scepticism about the "policy determinations that are often made as if there were no errors associated with small area estimates."

A. For the above reasons, the committee believes that due to the inherent unreliability and margin for error in the gathering of employment statistics for small localized areas, the Federal Government should not use these statistics as a trigger for funding programs in local areas particularly when the official unemployment figure is a target below which no money is deemed necessary. Programs which use the unemployment rate as a funding factor include: the Job Training Partnership Act (JTPA), the Urban Development Action Grant (UDAG), Employment Services, Emergency Food and Shelter, Revenue Sharing and the Public Works Program.

B. The Federal Government should not use local unemployment data in regions of the country as a number which indicates a low need for some sort of assistance. The underestimated statistics which are unreliable for a small sample should not be cited as a reason to cut programs intended to help jobless people. The statistics cannot indicate that there is no need. If the Federal Govern-

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ment reduces funding for programs, it must admit it is because of fiscal restraints and not pretend that the statistics indicate that there is no need for these programs.

C. The BLS should call more attention to the U-7 unemployment rate which includes data on discouraged and part-time workers. The highlighting of such data by BLS in its monthly report would better indicate the extent of hardship among the Nation's unemployed. The committee would caution against the use of U-7 unemployment data as a basis for Federal funding decisions for local areas.

V. Discussion

DEFINING AND MEASURING UNEMPLOYMENT

Counting the unemployed is a difficult enough task but defining unemployment is equally complicated. The Bureau of Labor Statistics (BLS) identifies and measures different groups connected to the labor force. Because there is disagreement as to which of these groups ought to be counted as unemployed, the BLS calculates several different rates of unemployment each month including different groups in each measurement. The official unemployment rate is reported on the first Friday of each month when the unemployment rates for the previous month are released, and it is only one of the seven unemployment rates calculated by BLS.

For purposes of calculating the various unemployment rates in the Current Population Survey (CPS), people are classified as "employed," "unemployed," or "not in the labor force." A person is considered employed if he/she has either (1) worked at all as a paid civilian, (2) worked at least 15 hours in a business operated by a family member, with or without pay, (3) is a member of the Armed Forces, or (4) is on unpaid leave from a job due to illness, bad weather, disputes between management and labor, or personal reasons.

A person is considered unemployed if he/she meets *all* of the following conditions: He/she (1) had no employment during the survey week, (2) was available for work at that time, and (3) made specific efforts to look for work during the past 4 weeks.

The official unemployment rate is the number of unemployed divided by the labor force, which is simply the sum of the employed and the unemployed.

There are seven variants of the basic or "official" unemployment rate which reflect differing notions of who ought to be counted as unemployed. In all variations, however, the same basic mathematical formula is used. The people counted as unemployed comprise the numerator. This number is divided by the number of people in the labor force, and, the resulting fraction, or percentage, represents the unemployment rates. BLS uses the abbreviations U-1, U-2, U-3, U-4, U-5a, U-5b, U-6, and U-7 to distinguish the eight resulting rates of unemployment.

The U-5b rate is the "official unemployment rate" as defined previously. This number is the one which is most often reported in the newspapers and newscasts. For example, in March 1986, the of-

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ficial unemployment rate was calculated using the following formula:

Official unemployment rate equals total number of people who are unemployed over civilian labor force equals 8,667,000 over 116,309,000 equals 7.2 percent.

For the purposes of this report, we are interested in two particular groups of people, not counted in the official unemployment rate but who are identified and counted by BLS in their monthly survey and included in the U–7 definition of unemployment. These two groups are known as "discouraged workers" and "part-time workers for economic reasons."

VI. Discouraged Workers

Discouraged workers, although not counted in the official unemployment rate, are nonetheless an important group associated with the problem of unemployment. Discouraged workers, as defined and tabulated by the BLS must meet three conditions: They must want to work, they must not have looked for work in the 4 weeks prior to being surveyed, and, most importantly, they must have stopped looking for work because they do not believe that there are any jobs available to them. They are, in fact, discouraged from looking for work. Any other reasons one might have for not looking for work such as an illness or lack of child care means that person is not counted as a discouraged worker, but merely as "wanting a job" and not part of any unemployment rate.

Discouraged workers are counted separately by BLS each month and are not considered as either part of the labor force or the unemployed rate. This group is included in U–7, only one of the eight unemployment rates.

It should be noted that discouraged workers share many characteristics of the officially unemployed. They are demographically quite similar in that women and minorities are disproportionately represented in the group as compared to the population as a whole. The following chart shows the breakdown of discouraged workers population in 1985:

DISCOURAGED WORKERS SELECTED CHARACTERISTICS FOURTH QUARTER 1985

[Figures in thousands]

Type	Number	Total	Percentage
Men	474	1,149	41.3
Women	675	1,149	58.7
White	765	1,149	66.6
Black	357	1,149	31.1
Hispanic	96	1,149	8.4

Source: U.S. Bureau of Labor Statistics.

TRENDS AMONG DISCOURAGED WORKERS

Just as the makeup of discouraged workers parallels that of the officially unemployed, so over time do the changes in their numbers. That is, when the economy is strong or recovering, the number of discouraged workers decreases. When the economy is

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sluggish or in a recession, the number of discouraged workers increases. These trends suggest that although discouraged workers are not officially counted as part of the labor force, their numbers are closely linked to labor market conditions. The following chart shows how the numbers of discouraged workers increase and decrease compared to the official unemployment rate:

COMPARISON OF UNEMPLOYMENT AND DISCOURAGED WORKER RATES AS A PERCENT OF LABOR FORCE

(Figures in thousands)

	Discouraged workers	Unemployed workers	Percentage		Civilian labor force
			Discouraged worker rate [1]	Unemployment rate [2]	
1977	1,026	6,991	1.0	7.1	99,009
1978	863	6,202	.8	6.1	102,251
1979	771	6,137	.7	5.8	104,962
1980	993	7,637	.9	7.1	106,940
1981	1,103	8,273	1.0	7.6	108,670
1982	1,568	10,717	1.4	9.7	110,204
1983	1,641	10,717	1.5	9.6	111,550
1984	1,283	8,593	1.1	7.5	113,544
1985	1,204	8,312	1.0	7.2	115,461

[1] Discouraged workers divided by civilian labor force.
[2] Unemployed workers divided by civilian labor force.
Source: U.S. Bureau of Labor Statistics.

As the chart indicates, the numbers of both officially unemployed and discouraged workers fluctuate with the state of the economy. In 1979, a relatively strong year economically, the percentage of unemployed and discouraged workers was low. Conversely, 1982–3, recession years, showed much higher rates of discouraged and unemployed workers. However, since 1977 the percentage of discouraged workers has not declined as much as in previous periods of economic growth. For example, in 1985, after 2 years of economic growth, the percentage of discouraged workers is still not down to its 1979 level. As with the unemployment rate, the problem of discouraged workers, may over time be growing and is, therefore, reason for some alarm.

VII. Part-Time Workers for Economic Reasons

BLS defines a "part-time employee" as a person who works between 1 and 35 hours a week. For the purposes of computing the official unemployment rate, all part-time workers are counted as employed and therefore as part of the labor force. However, when the BLS calculates other rates, it distinguishes between several groups of part-time workers. Employees do not always work part-time voluntarily. BLS considers part-time workers who want full-time work, but cannot find it, as "part-time for economic reasons," and include them as a separate category in the monthly analysis of the employment situation.

These part-time workers, it can be reasoned, can be considered partially employed and partially unemployed, because they have a job but not for as many hours as they would like. For example, a person with a 24-hour-a-week job who wants a full-time, or 40-hour-

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a-week, job might realistically be thought of as one-half employed and one-half unemployed. However, in calculating the official unemployment rate, this worker is counted as fully employed, or not unemployed at all.

It is revealing to examine the trends that have developed for the part-time worker for economic reasons because they reveal that underemployment is becoming an increasingly large problem. Fewer and fewer part-time workers are voluntary as compared to past years. The chart follows:

TRENDS IN PART-TIME WORKERS FOR ECONOMIC REASONS

[Figures in thousands]

	Part-time for economic reasons	Percent of labor force	Percent of total part-time workers	Total part-time workers	Civilian labor force
1977	3,530	3.9	16.6	21,204	99,009
1978	3,428	3.6	16.0	21,441	102,251
1979	3,478	3.6	15.2	22,918	104,962
1980	4,214	4.0	18.4	22,930	106,940
1981	4,658	4.7	17.9	26,012	108,672
1982	6,170	6.2	24.3	25,493	110,204
1983	6,266	6.2	25.2	24,895	111,550
1984	5,744	5.5	23.5	24,427	113,544
1985	5,590	5.2	22.6	24,628	115,461

Source: U.S. Bureau of Labor Statistics.

TRENDS AMONG PART-TIME WORKERS

What is strikingly evident from the chart is that the percentage of "part-time for economic reasons" with respect to the total part-time workers and the labor force as a whole is steadily increasing. A greater proportion of all part-time workers would like to work full time and, hence, more and more of all those counted as employed are really underemployed. With this increase, it is clear that by counting all part-time workers as part of the labor force in the official unemployment rate, the problems of those looking for work are being understated increasingly.

VIII. The U-7 Unemployment Rate

The most comprehensive, but underpublicized rate of unemployment is the U-7 unemployment rate. This rate includes the two groups, discouraged and part-time workers, which are not counted in the official, or U-5b, unemployment rate. The U-7 rate uses the official rate as a starting point and adjusts it to reflect the inclusion of both "discouraged" workers and "part-time workers for economic reasons."

The U-7 unemployment rate certainly more accurately represents the hardship which is felt as a result of economic and labor market fluctuation. Because, this figure is almost never mentioned or highlighted, the costs, hardships, and extent of unemployment are not fully reported or understood. The problems of discouraged workers and involuntary part-time workers are serious and growing, and probably directly related to the same underlying problems which are the causes of unemployment. Their plight, though not

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always considered ought not be fortgotten simply because they are not factored in the official unemployment rate.

IX. Problems Measuring Unemployment in Urban Areas

The subcommittee focused on whether there is significant undercounting of the unemployed in different localities and regions of the country. There is concern whether the CPS gives sufficient weight to ethnic and racial minorities, reflecting a perception that the decennial census which is the basis for constructing the CPS sample undercounts these segments of U.S. society to the disadvantage of urban centers. Other urban population groups like the transient, homeless and high school dropouts and minority youth with no previous labor force attachment, present difficult outreach problems in measuring them in the unemployment rate.

The U.S. Conference of Mayors conducted a survey of 25 cities on the extent of unemployment in 1985. Arthur J. Holland, mayor of Trenton, told the subcommittee that the conference asked the 25 cities whether the "official" unemployment rate in their city reflects the actual unemployment problem. Eighty-eight percent of the survey cities reported that the official unemployment rate does not reflect the actual unemployment problem in their city. Twelve survey cities, 48 percent, attributed the inaccuracy to the fact that the unemployment rate does not include discouraged workers. These cities include: Boston, Cleveland, Denver, Nashville, New York City, Phoenix, Portland, Saint Paul, San Antonio, San Juan, Washington, DC, and Yonkers. Portland officials estimated that there is at least one discouraged worker for every applicant for unemployment compensation. Washington, DC, officials reported that the unemployment rate could be doubled if discouraged workers were counted. Other than the discouraged worker factor, cities reported additional factors that contributed to the inaccuracy of the official unemployment rate: Failure to include the underemployed, failure to include those who have exhausted their unemployment benefits and failure to include young people. The Conference of Mayors concluded that undercounting of unemployment is a serious problem for urban areas because of the policy and funding decisions often made by Congress on the basis of the data.

X. Problems Measuring Unemployment in Rural Areas

Current agricultural problems have taken their toll on the rural labor force. Many farmers and their families are either looking for a job to provide them with off-farm income or are leaving farming and seeking full-time employment. Businesses and factories that rely upon the farm sector have had to lay off employees or close down completely because of the downturn in the farm economy. Few new jobs are being created in rural areas. Yet, these factors have not been reflected in official unemployment statistics. During the past few years, rural areas have generally had lower official unemployment rates than the Nation as a whole.

One of the main reasons for this is because of the lack of an accurate counting of the rural labor force. Both the U.S. Department of Labor and the U.S. Department of Agriculture, agencies with interest in labor policies in rural areas, admit that the current

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method of determining rural labor force participation is flawed. Some of the reasons which have lead to this have been the inconsistencies in the definition of rural areas and the lack of financial resources to conduct an extension sampling of the labor force.

Two factors limit the reliability of unemployment statistics for rural areas: the definition of employed/unemployed and the lack of resources to collect reliable, local data in rural America.

First, the definition used by BLS to determine who is employed and unemployed does not take into consideration special characteristics of the rural labor force. The rural labor market has a higher incidence of self-employed people who typically do not receive unemployment insurance benefits. Since, in areas where CPS samples are small, unemployment insurance data are used to calculate the unemployment rate, there will most certainly be an unemployment undercount in many rural areas. In addition, due to conditions particular to the agricultural sector, there are many part-time workers, who for the purposes of the official unemployment rate are considered employed. For example, in the case of a farmer, if he works 1 hour during a week on his farm he is considered employed. His wife is also considered employed if she works 15 or more hours on the farm, even if she does not get paid.

BLS Commissioner Norwood pointed out that conditions of the rural labor market are different from those in urban areas. She stated:

> Conditions of rural life differ in important respects from those in urban areas, and, at times, the concepts and definitions used in our national survey may not be fully appropriate for the rural economy. This is especially true in the labor market, where rural job opportunities are affected by weather, where part-time work can be an important factor, and where wages are often comparatively low.[1]

Commissioner Norwood also mentioned that the underutilization of the labor force is more of a problem in the rural areas. She stated, however, that there are no easy solutions to these problems.

Second, the lack of resources at BLS prevents the collection of more reliable data for small rural areas. Commissioner Norwood admitted that there is a need for better local area data, but emphasized that small samples are subject to large relative errors. She said:

> Local area data are usually very expensive to collect and are often subject to considerable sampling and nonsampling errors. This set of circumstances reduces our ability to identify with confidence some of the issues that may need our attention.[2]

XI. Ramifications of Undercounting the Unemployed

Throughout the hearing two main points were made repeatedly about the impact of underestimating unemployment. Representa-

[1] See "Counting All the Jobless: Problems With the Official Unemployment Rate," hearing before a subcommittee of the Committee on Government Operations, U.S. House of Representatives, 99th Cong., 2d sess., March 20, 1986, p. 16. Hereinafter referred to as "Hearing."

[2] Hearing, p. 17.

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tive Lightfoot was concerned that rural areas were not receiving their fair share of Federal dollars for programs which allocate funds based upon official unemployment statistics. Programs which use unemployment statistics in their funding formulae include the Revenue Sharing Program, the Public Works Program, the Job Training Partnership Act (JTPA), the Urban Development Action Grant (UDAG), Employment Services, the Emergency Food and Shelter Program.

As an example of the effect of underestimating rural unemployment, Representative Lightfoot cited a recent General Accounting Office study which estimated that if the official unemployment rate was underreported by one to 3 percent, this would translate into a 7 to 21 percent reduction in JTPA funds going into rural areas from this program.

A second concern about underestimating the unemployed is its impact on economic development. Dr. Korsching said that underestimating unemployment discourages prospective employers from starting businesses in an area because the employer believes that few people are available for jobs. He conducted a survey in eight Iowa counties which showed that if employers were informed of a more realistic potential labor pool, they were much more inclined to develop in these areas.

XII. Summary

There is an undercount of unemployed people due to the difficulties in counting various groups who are available for employment. The undercount is amplified by the exclusion of certain groups such as discouraged workers and involuntary part-time workers from the official unemployment rate. The undercount coupled with the inaccuracy of local area unemployment data makes it difficult to rationalize the cutting of both Federal and local programs designed to help the jobless on the basis that there is no need for the programs.

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